



State of Washington
Department of Revenue

Excise Tax Advisory

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DEDUCTION OF FINANCE CHARGES FROM LEASE PAYMENTS

Issued August 19, 1966

Are finance charges deductible from the payments made under a lease with option to purchase?

Taxpayer entered into a lease with option to purchase as a method of financing the acquisition of needed equipment. Finance charges were designated in computing the amounts payable under the contract. Taxpayer contended that the Sales Tax applied only to equipment rental excluding finance charges.

RCW 82.04.040 specifically includes leases with option to purchase within the term "sale." Sales Tax is based on the "selling price" which includes all consideration paid with no deductions. RCW 82.08.010(l).

The Commission held that the Sales Tax on a lease with option to purchase applies to the full charge to the lessee with no deductions for other payments. Most lease agreements cover more than the value of the equipment rented--profit, invested capital charges, etc.--and it is the gross income from the lease which is taxed.

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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